

Health and Human Services

The May Revision maintains a strong and responsible safety net for California's most vulnerable residents by continuing the reform proposals and initiatives included in the Governor's January Budget. In developing these reform proposals and initiatives, the Administration continues to be guided by an overall vision for health and human services:

- Residents are protected against and prepared for natural and intentional disasters.
- Californians have access to affordable health care coverage.
- Children are raised in safer, more stable, and permanent homes.
- Seniors and persons with disabilities live in the most integrated and appropriate community setting.

These reform efforts strike a reasonable and responsible balance between the need to maintain essential services for Californians in need, while implementing strategies to better manage and control program costs over the long term. At the same time, the May Revision identifies a number of additional targeted investments that address emerging issues and promote continued access to services that are critical to supporting the health and well-being of the people of California.

May Revision Adjustments—Highlights

State Support for County Efforts to Cover Uninsured Children

In recent years, counties, foundations, the state and local First Five Commissions, and other community groups have established 18 county-based programs, called children's health initiatives, to cover uninsured children in families above 250 percent of federal poverty who are ineligible for Medi-Cal or the Healthy Families Program (HFP). Additional counties are in the planning stages to begin similar programs. These existing children's health initiatives cover approximately 83,000 children. These initiatives are expected to have nearly 24,000 children on waiting lists by the end of 2006-07. To eliminate these waiting lists, the May Revision proposes \$23 million General Fund and three positions in the Managed Risk Medical Insurance Board (MRMIB) to support enrollment of these uninsured children.

Modify Certified Application Assistants Proposal

To increase the number of successful applications to Medi-Cal and the HFP, the May Revision proposes that Certified Application Assistants (CAAs) who assist with enrolling kids in public health coverage programs receive an additional \$25 per successful application filed using the electronic Health-e-App. To improve retention, payment to CAAs for Annual Eligibility Redetermination assistance will be increased from \$25 to \$50. The Administration estimates that this modified proposal will allow an additional 20,000 children to receive and maintain health coverage in 2006-07.

Governor's Initiative to End Chronic Homelessness

The May Revision proposes to continue the interagency collaboration between the Health and Human Services Agency (HHSA) and the Business, Transportation, and Housing Agency (BTHA) to implement the second phase of the Governor's Initiative to End Chronic Homelessness by providing up to \$75 million in Proposition 63 funding each year to construct housing for individuals with mental illness who are chronically homeless and their families. Proposition 63 resources will be leveraged to secure an estimated \$4.5 billion in other funding sources and will enable the construction of more than 10,000 new housing units. In addition, \$1.2 million is proposed for the Department of Mental Health (DMH) to coordinate implementation of the initiative.

Foster Care Federal Waiver Implementation

The Administration secured a waiver to provide counties with unprecedented flexibility in using foster care funds to offer innovative services to keep children out of foster care and in

safe, stable homes. The Title IV-E Child Welfare Waiver Demonstration Project will allow up to 20 counties to participate in a five-year program focused on prevention and intervention strategies aimed at keeping children in their homes. Previously, waiver funding could only be used for foster care payments and services to support children already in foster care. Under the waiver, children at risk are less likely to be placed in institutions because preventive services will now be provided to families in crisis. This alleviates the need for removing children from the home and placing them into costly and restrictive foster care settings. The May Revision provides funds for the upfront costs associated with initial implementation of the waiver.

County Expansion of Program Improvement Plan (PIP) Initiatives

The May Revision includes \$19.6 million (\$11.9 million General Fund) to expand three specific PIP initiatives, currently being pilot tested in 11 counties, to additional counties in 2006-07. The federal Child and Family Services Review and the new California Outcome and Accountability System have established a comprehensive process to measure program performance and track improvement in California's CWS delivery system. This funding will allow the Standardized Safety Assessment initiative to be expanded to an additional 18 counties and the Differential Response and Permanency Enhancements initiatives to be expanded to an additional 15 counties.

Managed Care Plan Payments

Protecting access to health care for vulnerable Californians is important to the Administration. The May Revision contains \$65.4 million (\$32.7 million General Fund) for half-year costs beginning January 1, 2007, to eliminate the 5 percent provider payment reduction on Medi-Cal managed care plans that was imposed by the Legislature and prior Administration pursuant to Chapter 230, Statutes of 2003 (AB 1762). Increasing provider payments will ensure that providers continue to serve 3.2 million Medi-Cal beneficiaries.

Increase Other Medi-Cal Managed Care Rates

The Department of Health Services (DHS) recently conducted a financial review of all Medi-Cal managed care plans to determine if any additional rate adjustments were needed to ensure that health plans would have sufficient resources to provide quality care to Medi-Cal beneficiaries through 2006-07. This review determined that rate increases will be needed for Central Coast Alliance for Health, Community Health Group, Contra Costa Health Plan, Health Plan of San Mateo, Partnership Health Plan of California, and Santa Barbara Regional Health Authority. Increasing provider rates will ensure that providers continue to serve

Medi-Cal beneficiaries. The May Revision contains \$61.2 million (\$30.6 million General Fund) in 2006-07 to fund these rate increases.

Department of Health Services

Medi-Cal

- 2005-06 -\$365.8 million
- 2006-07 \$29.7 million

Current Year

The May Revision includes total Medi-Cal expenditures of \$33.3 billion (\$12.8 billion General Fund), a decrease of \$502.5 million (\$365.8 million General Fund) from the January Governor's Budget. General Fund expenditures for Medi-Cal have increased by \$1.1 billion, 9.6 percent over the 2004-05 level.

The average monthly Medi-Cal caseload in 2005-06 is expected to decrease by 100,700 beneficiaries, to 6,579,500 eligibles. This represents a decrease of 1.5 percent from the level projected in the January Governor's Budget. The revised caseload is expected to track closely to 2004-05 caseload.

The net General Fund decrease from the January Governor's Budget level includes the following significant adjustments:

- A \$270.9 million decrease reflecting the recalculation and payment over time of the Medicare Part D "clawback".
- A \$184.6 million decrease due to the identification of additional drug rebates that likely will be received in 2005-06.
- A \$45.9 million net increase for various cost and utilization changes.
- A \$43.8 million increase due to hospital financing costs that are shifting from 2006-07 to 2005-06 as the result of a delay in implementing the hospital financing waiver.

Budget Year

The May Revision includes total Medi-Cal expenditures of \$35.0 billion (\$13.8 billion General Fund), a net total funds increase of \$183.5 million (\$29.7 million General Fund)

from the January Governor's Budget. General Fund expenditures for Medi-Cal are expected to increase by \$937.9 million, or 7.3 percent over the 2005-06 level.

The average monthly Medi-Cal caseload is expected to decrease from the January Governor's Budget by 142,100 beneficiaries, to 6,664,700 eligibles. This represents a decrease of 2.1 percent below the January Governor's Budget.

The net General Fund increase from the January Governor's Budget level includes the following significant adjustments:

- A \$106.1 million increase due to a revised estimate of the fiscal impact of transferring dual eligibles to the Medicare Part D program.
- An \$81.1 million decrease due to the identification of additional drug rebates that likely will be received in 2006-07.
- A \$43.8 million decrease due to hospital financing costs that are shifting from 2006-07 to 2005-06 as the result of a delay in implementing the hospital financing waiver.
- A \$32.7 million augmentation due to rate increases provided to certain managed care plans to ensure that they will have sufficient resources to provide quality care to Medi-Cal beneficiaries.
- A \$14.8 million net increase for various cost and utilization changes.
- A \$1.0 million increase to add HIV/AIDS to the Disease Management Pilot Project.

Licensing and Certification

The May Revision refines the distribution of costs between the Licensing and Certification Fund and the General Fund to reflect a better estimate of the cost to license and certify both state-owned facilities and 306 certified-only facilities that cannot be charged fees. This refinement increases the General Fund share of cost by \$4.6 million. In addition, this refinement increases the expenditure authority in the Licensing and Certification Fund by \$2 million to pay the cost of fingerprint criminal clearance processing for Certified Nurse Assistants. Furthermore, the Administration is withdrawing the January Governor's Budget current year proposal for \$8 million General Fund to support 67 Licensing and Certification positions. The DHS has used increased overtime and the hiring of retired annuitants to help meet its current year requirements and no longer requires these additional resources.

Public Health

- 2005-06 \$0.9 million
- 2006-07 -\$2.4 million

Current Year

The May Revision includes a net decrease of \$1.0 million from the \$224.6 million provided in the January Governor's Budget due to adjustments in caseload and health care costs in the California Children's Services (CCS) program, Child Health and Disability Prevention (CHDP) program, and Genetically Handicapped Persons Program (GHPP). General Fund expenditures for these programs have increased \$7.8 million, or 9.2 percent, which includes \$6.0 million General Fund to backfill Title V funds previously used to support direct care services in the CCS program.

The May Revision includes \$258.8 million to fully fund the AIDS Drug Assistance Program (ADAP). This funding level is 3.0 percent below the \$266.8 million identified in the January Governor's Budget, which included \$1.5 million in savings resulting from the implementation of Medicare Part D. Current year ADAP caseload at the May Revision remains unchanged from the January Governor's Budget. This funding adjustment reflects net savings of \$8.0 million General Fund as a result of ongoing efforts to attain program efficiencies from revised reimbursement structures with the program's pharmacy benefits manager and from revised Medi-Cal screening guidelines offset by \$1.97 million in higher program costs due to steadily increasing drug prices and increased access to covered drugs by ADAP clients. These savings will not result in program cuts or limitations to current levels of service.

The Genetic Disease Screening estimate reflects an increase of \$3.6 million from the Genetic Disease Testing Fund due to an increase in caseload and costs for follow-up, counseling, and diagnostic services in the newborn screening and prenatal screening programs. This information was previously transmitted to the Legislature on May 3, 2006.

Budget Year

The May Revision includes an increase of \$10.3 million (\$3.8 million General Fund) from the \$255.5 million provided in the January Governor's Budget due to adjustments in caseload and health care costs in the CCS, CHDP, and GHPP programs. General Fund expenditures have increased \$3.8 million, or 4.8 percent, which includes \$6.0 million General Fund to backfill Title V funds previously used to support the CCS program.

The May Revision also includes an increase of \$3.0 million from the ADAP Rebate Fund, or 1.0 percent, from the \$296.4 million provided in the January Governor's Budget to fund increased program costs. Budget year caseload at the May Revision remains unchanged from the January Governor's Budget. Although program costs are \$23.9 million higher due to steadily increasing drug prices and increased access to covered drugs by ADAP clients, ADAP has identified \$20.9 million in additional savings resulting from revised reimbursement structures with the program's pharmacy benefits manager, revised Medi-cal screening guidelines, and savings resulting from implementation of Medicare Part D.

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The May Revision also includes an increase of \$6.7 million in Proposition 99 funding for the Breast Cancer Early Detection Program: Every Woman Counts. To provide the increase, the May Revision redirects Proposition 99 funds from the Orthopaedic Hospital program and provides \$6.7 million General Fund for the hospital program. The increase will provide services for eligible women and backfill a projected reduction in the federal grant award for this program. Budget year caseload at the May Revision increased by 9,344 women, or 3.6 percent, from 263,066 to 272,410 women.

Alzheimer's Disease Program

The May Revision includes \$2 million General Fund to increase grants to the Alzheimer's Disease Research Centers of California (ARCC). Each of the 10 research centers will receive an additional \$185,000. The remaining \$150,000 will be provided to the University of California, San Francisco Institute of Health and Aging, which manages ARCC data and program evaluations. This increase, the first since 1998-99, will enhance the program's ability to provide state-of-the art diagnostic and treatment services, caregiver training and support services, and evaluate the most complex cases of dementia of Alzheimer's related disorders. In addition, the funds will be used to expand Alzheimer's Disease research.

Managed Risk Medical Insurance Board

- 2005-06 -\$6.3 million
- 2006-07 \$16.9 million

County Health Initiative Matching Fund Program

The County Health Initiative Matching (CHIM) Fund Program, established by Chapter 648, Statutes of 2001, allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program funds to provide health care for uninsured children in families with incomes up to 300 percent of the federal poverty level. These county programs are frequently referred to as Healthy Kids Programs. Expenditures are expected to increase by \$520,000 (\$182,000 CHIM Fund and \$338,000 federal funds) in 2005-06 and by \$156,000 (\$55,000 CHIM Fund and \$101,000 federal funds) in 2006-07 due to updated county caseload information.

County-Based Children's Health Initiatives Enrollment Assistance

The May Revision proposes \$23 million General Fund and three positions to provide financial support to the 18 counties with operational children's health programs so they can enroll the estimated 24,000 uninsured children on waiting lists in 2006-07 in local initiatives.

Healthy Families Program

Current Year

The HFP is expected to serve a total of 780,698 children by June 30, 2006, an increase of 38,354, or 5.2 percent, from June 30, 2005. The May Revision projects an overall expenditure decrease of \$18.0 million (\$6.2 million General Fund), from \$908.5 million (\$326.8 million General Fund) to \$890.5 million (\$320.6 million General Fund), from the level anticipated in the Governor's January Budget. This is a 2 percent decrease in total funds, primarily due to a reduction in the estimated caseload growth in the HFP.

Budget Year

The May Revision projects an overall expenditure decrease of \$19.8 million (\$6.1 million General Fund), from \$1,047.1 million (\$377.2 million General Fund) to \$1,027.3 million (\$371.1 million General Fund), from the level anticipated in the January Governor's Budget. This is a 1.9 percent decrease in total funds. Between June 2006 and June 2007 enrollment in HFP is expected to grow from 780,698 children to 867,727 children. This is an increase of 87,029 children, or an 11.1 percent increase. Projected caseload as of the May Revision reflects updates to the impact of various proposals included in the January Governor's Budget that promote and maximize enrollment in HFP, improve the retention of children already enrolled, and support county-based efforts to enroll eligible children.

Access for Infants and Mothers Program

Current Year

The May Revision projects an overall expenditure decrease of \$2.0 million (-\$2.1 million Perinatal Insurance Fund, -\$57,000 General Fund, and \$96,000 federal funds), from \$117.4 million to \$115.3 million, from the level anticipated in the January Governor's Budget. This is a 1.7 percent decrease in total funds. Average monthly enrollment in the Access for Infants and Mothers (AIM) program is expected to be 7,030 women and infants, 2.0 percent lower than the 7,173 originally estimated in the January Governor's Budget.

Budget Year

The May Revision projects an overall expenditure increase of \$5.9 million (\$1.2 million Perinatal Insurance Fund and \$4.7 million federal funds) from the level anticipated in the January Governor's Budget. This is a 5.2 percent increase in total funds. Costs are higher due to slight increases in women's enrollment and rates charged by plans. All first-year infants will be phased out of AIM by July 2006 and new infants are going directly into HFP. Second-year infants will be phased out of AIM during 2006-07. Average monthly enrollment in AIM is expected to be 1,616 women and infants, 5.1 percent lower than the 1,703 originally estimated in the January Governor's Budget.

With a declining number of children enrolled in AIM, the MRMIB has had to increase provider rates to recognize the relatively higher cost of pregnancies for a higher share of the AIM caseload. In 2006-07, the one-time capitation rate for pregnancies is expected to be approximately \$620 higher than the rate used in 2005-06, once approved by MRMIB.

Office of Statewide Health Planning and Development

- 2005-06 No Change
- 2006-07 No Change

The May Revision includes an increase of \$1.2 million Hospital Building Fund and 13 positions to implement a Fire and Life Safety Officer training program and to provide additional support for regional operations to facilitate plan and field review of hospitals and skilled nursing facilities.

Department of Developmental Services

- 2005-06 \$15.6 million
- 2006-07 \$86.7 million

Agnews Developmental Center Closure

The closure of Agnews Developmental Center (Agnews) will be delayed from June 30, 2007 to June 30, 2008, in order to ensure adequate community supports are available to Agnews consumers once they transition into the community. As a result, the number of consumers who will transition from Agnews into the community will be reduced by 17 consumers in 2005-06 and 58 consumers in 2006-07. In addition, 50 Agnews consumers who were projected to transfer to another developmental center in 2006-07 will remain at Agnews. The delay will impact both developmental centers and regional centers. Costs to provide services to consumers at Agnews will increase, while developmental center staff costs to transition consumers into the community and regional center purchase of services costs will decrease. The net effect will be decreased expenditures of \$3.6 million (\$1.7 million General Fund) in 2005-06 and \$8.1 million (\$7.9 million General Fund) in 2006-07.

Developmental Centers

Current Year

Compared to the January Governor's Budget, the developmental centers' population is projected to increase by 17 residents to 3,043 residents. The May Revision includes an increase of \$3.7 million General Fund, which will be offset by a transfer of \$3.7 million General Fund from the regional center budget and a reduction of \$4.9 million in reimbursements. These changes are primarily due to the following adjustments:

- Population—Increase of \$1.7 million (\$895,000 General Fund) and 20.0 positions due to the increase in population. The change in caseload is a result of 17 fewer Agnews consumers transitioning into the community.
- Medi-Cal Allowable Costs—Decrease of \$1.4 million General Fund and corresponding increase in Medi-Cal reimbursements to reflect an increase in Title XIX Allowable Costs.
- Medicare Part D—Increase of \$4.9 million General Fund and corresponding decrease in Medi-Cal reimbursements due to the implementation of Medicare Part D. Under Medicare Part D, the state receives reimbursements for developmental center drug purchases as General Fund revenues, rather than as reimbursements within the

developmental centers' budget. In addition, the Department of Developmental Services no longer receives reimbursements for certain administrative costs that were allowable under Medi-Cal. The General Fund increase in the developmental centers' budget will be partly offset by increased General Fund revenues.

- Agnews Closure Plan—Decrease of \$2 million (\$166,000 General Fund) due to: (1) a three-month delay in the effective date for state employees to begin providing services in the community, (2) reduced costs for staff transition assistance and training, and (3) reduced costs for staff escort services for pre-placement visits associated with relocating consumers.

Budget Year

Compared to the January Governor's Budget, the developmental centers' population is projected to increase by 31 residents to 2,828 residents. The May Revision includes an increase of \$1.6 million General Fund and a decrease of \$5.5 million in reimbursements for a net reduction of \$3.9 million. Major changes include:

- Population—Decrease of \$496,000 (\$99,000 General Fund) and 19.0 positions, including an increase of 35.0 Level-of-Care positions and a decrease of 54.0 non-Level-of-Care positions. The increase in Level-of-Care staff is due to the increase in the developmental center population. The decrease in non-Level-of-Care staff is attributable to 50 Agnews consumers remaining at Agnews, rather than transferring to another developmental center in 2006-07.
- Medicare Part D—Increase of \$7.4 million General Fund and corresponding decrease in Medi-Cal reimbursements due to the implementation of Medicare Part D.
- Agnews Closure Plan—Decrease of \$4.6 million (\$5 million General Fund) due to reduced costs for: (1) staff transition assistance and training, (2) staff escort services to transfer consumers into the community, and (3) other activities associated with relocating consumers.

Regional Centers

Current Year

Compared to the January Governor's Budget, the regional centers' community caseload is projected to decrease by 1,342 consumers, to a caseload of 203,823 consumers.

The May Revision includes a net increase of \$20.5 million (\$5.8 million General Fund) for regional centers as a result of the following major adjustments:

- Operations—Decrease of \$3.1 million (\$3.0 million General Fund) in staffing costs due to the reduction in caseload.
- Purchase of Services—Increase of \$26.7 million (\$11.9 million General Fund) based on updated utilization and expenditure data, partially offset by a reduction in caseload.

Budget Year

Compared to the January Governor's Budget, the regional centers' community caseload is projected to decrease by 1,515 consumers to a caseload of 212,225 consumers.

The May Revision includes a net increase of \$90.4 million (\$58.6 million General Fund), including the following changes:

- Operations—Decrease of \$2.5 million (\$2.2 million General Fund) in staffing costs due to the decline in caseload.
- Purchase of Services—Increase of \$82 million (\$65.8 million General Fund) based on updated utilization and expenditure data, partially offset by a reduction in caseload.
- Provider Rate Increase—Increase of \$582,000 (\$436,000 General Fund) due to updated data for the 3 percent provider rate increase proposed in the Governor's Budget. The Governor's Budget included \$67.8 million (\$46.1 million General Fund) to provide an increase to programs for which the Department sets rates, including those that have been subject to rate freezes during the last three years.
- Medicare Part D (Operations)—Increase of \$2.9 million General Fund to continue, for an additional year, assisting new consumers with enrolling in a prescription drug program (PDP), helping existing consumers change PDPs as warranted and guiding consumers through the Medicare Part D appeals process.
- Medicare Part D (Purchase of Services)—Increase of \$4.8 million General Fund to purchase prescription medications not covered by either Medicare Part D or Medi-Cal.
- Attendance Data—Increase of \$2.1 million (\$1.4 million General Fund) for regional centers and \$1.3 million (\$1 million General Fund) for providers to improve data collection efforts that will enable the state to draw down an additional \$16.1 million in federal

funds in 2006-07 and \$21.4 million in 2007-08, resulting in a corresponding reduction in General Fund.

Headquarters

Budget Year

Attendance Data—The May Revision includes an increase of \$193,000 (\$126,000 General Fund) and 2.0 positions for improved data collection from regional centers. This information will be used to bill the federal government for approximately \$16.1 million in additional federal reimbursements in 2006-07 and \$21.4 million in 2007-08.

Department of Mental Health

- 2005-06 -\$15.2 million
- 2006-07 \$70.7 million

Long-Term Care / State Hospitals

Current Year

The May Revision includes a net decrease of \$15.2 million General Fund in 2005-06 compared to the January Governor's Budget for state hospitals. The General Fund decrease consists of the following major adjustments:

- A decrease of \$12.0 million General Fund to reflect a reduction in the Judicially Committed/Penal Code population of 195 patients, including a decrease of 46 Incompetent to Stand Trial (IST) patients, 11 Not Guilty by Reason of Insanity (NGI) patients, 67 Mentally Disordered Offenders (MDOs), and 71 Sexually Violent Predators (SVPs).
- A decrease of \$6.2 million General Fund for the delayed activation of 50 California Department of Corrections and Rehabilitation (CDCR) beds at Coalinga State Hospital. This reduction is due to recruitment difficulties experienced at the hospital.
- A decrease of \$524,000 General Fund to reflect a reduction in the CDCR population of 24 patients. This adjustment was made pursuant to a court order in the Coleman case to convert 60 Day Treatment beds to 36 Intermediate Care Facility (ICF) beds at the Vacaville Psychiatric Program.

- An increase of \$729,000 General Fund to reflect the December 2006 activation of an additional 36 temporary ICF beds at Salinas Valley State Prison (SVSP). This adjustment was made pursuant to a court order in the Coleman case and reflects two months of current year funding for advance hiring consistent with the effective phase-in strategy utilized to recruit staff for the activation of the original 36 temporary beds at SVSP.
- An increase of \$2.7 million General Fund for additional recruitment and retention pay differentials for physician and nursing classifications. This adjustment was made in relation to the Plata court order.
- An increase of \$520,000 General Fund to reimburse the Pooled Money Investment Board for costs expended for working drawings, plus interest and other fees, associated with the Metropolitan State Hospital (MSH) Construct School Building project. The project is being cancelled due to a significant decline in the adolescent population at MSH.

Budget Year

Funding for long-term care and state hospitals is anticipated to increase by a net \$1.1 million (\$8.4 million General Fund) in 2006-07. Significant General Fund adjustments are as follows:

- State Hospital Population—The May Revision includes a net increase of \$135,000 (an increase of \$7.4 million General Fund and a decrease of \$7.2 million in realignment reimbursements) in 2006-07. This includes the following major changes:
 - o An increase of \$4.2 million General Fund to reflect a net increase in the Judicially Committed/Penal Code population of 158 patients, including a decrease of nine IST patients and an increase of 27 NGI patients, 65 MDOs and 75 SVPs. This adjustment reflects the use of the new Civil Rights for Institutionalized Persons Act (CRIPA) staffing standards.
 - o A decrease of \$16.3 million General Fund to reflect the full-year impact of the current year reduction in the Judicially Committed/Penal Code population of 195 patients.
 - o An increase of \$5.7 million General Fund to reflect the December 2006 activation of an additional 36 temporary ICF beds at SVSP. This adjustment was made pursuant to a court order in the Coleman case and reflects five months of budget year

funding for advance hiring consistent with the effective phase-in strategy utilized to recruit staff for the activation of the original 36 temporary beds.

- o An increase of \$1.8 million General Fund to reflect the full-year impact of the current year reduction in the CDCR population of 24 patients due to the conversion of 60 Day Treatment beds to 36 ICF beds at the Vacaville Psychiatric Program.
 - o An increase of \$432,000 General Fund to reflect the establishment of a new psychiatrist series classification at Vacaville and Salinas Psychiatric Programs. This adjustment was made pursuant to an order in the Coleman case.
 - o An increase of \$1.8 million General Fund for a change in the staffing needs identified in the Sexually Violent Predator Treatment Restructure savings proposal included in the 2005 Budget Act. Based on experience activating the residential housing units (RHUs) at Coalinga State Hospital, the Department of Mental Health (DMH) has identified a critical need for additional Level-of-Care staff for RHUs.
 - o The permanent shift of \$9.7 million General Fund from DHS to DMH for patient generated revenue (\$9.5 million) and eligibility unit contracts at MSH and Napa State Hospital (\$245,000). These funds are currently scheduled as a reimbursement to DMH from DHS.
- Forensic Conditional Release Program—A General Fund increase of \$456,000 to reflect an increase of 20 non-SVP patients currently court ordered for conditional release.
 - SVP Evaluations and Court Testimony—An increase of \$548,000 General Fund based on a projected increase in initial and recommitment SVP evaluations.

Community Mental Health Services

Current Year

The May Revision includes a reduction of \$29.4 million in reimbursements for community mental health services in 2005-06. The change is comprised of the following major adjustments:

- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program—
The May Revision includes a reduction of \$27.0 million in reimbursements (\$12.1 million General Fund in DHS) due to lower than projected EPSDT claims. Since reimbursement

rates for services are capped at the Medi-Cal Statewide Maximum Allowance (SMA), the increase is the result of caseload and utilization growth.

- **Healthy Families Program**—Funding for mental health services for Healthy Families Program participants is anticipated to increase by \$529,000 federal funds in DHS. This change reflects updated claiming information and county administrative costs.
- **San Mateo Pharmacy and Laboratory Services**—The May Revision includes a reduction of \$2.9 million (\$1.4 million General Fund in DHS). This primarily reflects the results of a claims study completed in March 2006 and the impact of Medicare Part D implementation.

Budget Year

The May Revision includes a net increase of \$57.1 million (\$62.3 million General Fund) in 2006-07 for community mental health services compared to the January Governor's Budget. Major adjustments include the following:

- **Mental Health Services to Special Education Pupils (AB 3632)**—An increase of \$69 million General Fund in local assistance (offset by a \$50 million General Fund savings in the mandate program) to restructure the AB 3632 mental health services program, as described below, and an increase of \$275,000 General Fund for program administration and monitoring.
- **EPSDT Program**—The May Revision includes a decrease of \$12.9 million (\$5.9 million General Fund) due to lower than projected EPSDT claims.
- **Mental Health Managed Care Program**—There is a net decrease of \$1.0 million (\$389,000 General Fund) for this program. This change primarily reflects a decrease in the number of Medi-Cal eligibles.
- **Healthy Families Program**—Funding for mental health services for program participants is proposed to increase by \$1.1 million in federal funds in DHS. This change reflects updated claims information and county administrative costs.
- **San Mateo Pharmacy and Laboratory Services**—The May Revision includes a reduction of \$4.6 million (\$2.3 million General Fund). This primarily reflects the results of a claims study completed in March 2006 and the impact of Medicare Part D implementation.

- Conlan Court Order—An increase of \$3.3 million (\$1.6 million General Fund) in one-time funding for the payment of potential retroactive claims related to Medi-Cal billing and contracting with a fiscal intermediary to implement the required claims process in compliance with the court order.
- Mental Health Services Oversight and Accountability Commission (MHSOAC)—An augmentation of \$534,000 Mental Health Services Fund to the MHSOAC's current budget to provide increased support and oversight to implement the Mental Health Services Act (Proposition 63).

Restructuring of Mental Health Services to Special Education Pupils (AB 3632)

The May Revision proposes to restructure the AB 3632 mental health services program to improve fiscal and programmatic accountability and introduce greater efficiency, while ensuring that mental health services to special education pupils continue. Federal Individuals with Disabilities Education Act (IDEA) funds of \$69 million will continue to be provided to county offices of education (COEs) for allocation to county mental health departments, as will \$31 million in Proposition 98 General Fund to Special Education Local Plan Areas (SELPA) to continue providing pre-referral services. An additional \$69 million in non-Proposition 98 General Fund will be allocated to county mental health departments to provide AB 3632 services. As a condition of receiving the non-Proposition 98 General Fund, COEs and county mental health departments will be required to enter into agreements for county mental health departments to provide AB 3632 services to special education pupils. The agreements also will address the COEs' plans for providing services if the funding provided through IDEA and the General Fund is exhausted. These funds will be available to match federal fund expenditures.

The allocation of IDEA and General Fund will be consistent and based on school attendance figures for special education pupils. Small counties will receive a minimum level of funding to ensure that they have adequate resources, a risk pool will be established for high-cost incidents, and unspent funds will roll over for one year. The California Department of Education (CDE) or its designee will be required to audit county mental health departments to ensure the link between services and the pupil's Individualized Education Program (IEP) for services claimed under this funding. The DMH and CDE will also provide technical assistance to improve the structuring of mental health services in the IEP to provide services more effectively and improve student success.

Proposition 63 Funds for Phase II of the Governor's Initiative to End Long-Term Homelessness

In 2005-06, the HHSA and the BTHA collaborated to implement the first phase of the Governor's Initiative to End Long-Term Homelessness. In the first phase, \$40 million of Proposition 46 funding, \$2.4 million of Proposition 63 funding, and construction, bridge and permanent financing from the California Housing Finance Authority is being used to create 400 to 500 units of permanent housing with supportive services for the chronically homeless population. The May Revision proposes to continue that interagency collaboration to implement the second phase of the Governor's Initiative by providing up to \$75 million in Proposition 63 funding each year to construct housing for individuals with mental illness who are chronically homeless and their families. Proposition 63 resources will be leveraged to secure an estimated \$4.5 billion in other funding sources and will enable the construction of more than 10,000 new housing units. As a condition of receiving funds, counties will be required to provide the supportive services necessary to maintain these individuals in their homes. In addition, \$1.2 million is proposed for the DMH to coordinate the implementation of the second phase.

Increased Revenue to the Proposition 63 Mental Health Services Fund (MHSF)

Based on updated revenues from the Personal Income Tax Fund and interest income from the Surplus Money Investment Fund, the estimated revenues to the Proposition 63 MHSF are now projected to be greater than the revenue identified in the January Governor's Budget. The two-year increase is projected to be \$1.1 billion (\$514 million in 2005-06 and \$579,000 in 2006-07).

Department of Alcohol and Drug Programs

- 2005-06 \$2.9 million
- 2006-07 \$6.8 million

Current Year

The May Revision includes an increase of \$5.2 million (\$2.9 million General Fund), or 0.8 percent, above the \$609.6 million provided in the January Governor's Budget. This increase is due to revised estimates for caseload and units of service.

- Regular Drug Medi-Cal—Expenditures are expected to be \$2.6 million General Fund higher than projected in the January Governor’s Budget. Caseload is estimated to be 4,336 clients, 2.6 percent higher than previously projected.
- Perinatal Drug Medi-Cal—Expenditures are expected to be \$316,000 General Fund higher than projected in the January Governor’s Budget. Caseload is estimated to be 1,183 clients, 16.0 percent higher than previously projected in the January Governor’s Budget.

Budget Year

The May Revision includes an increase of \$14.7 million (\$6.8 million General Fund), or 2.3 percent, above the \$614.6 million provided in the January Governor’s Budget, including the following adjustments:

- Regular Drug Medi-Cal—Excluding increases related to the Conlan litigation, expenditures are projected to increase by \$3.6 million General Fund, or 5.9 percent, from the January Governor’s Budget due to changes in caseload and average units of service. Caseload is projected to increase by 6,702, or 3.7 percent, above the January Governor’s Budget. This change reflects an increase of 4,974 clients in the Outpatient Drug Free Program, an increase of 1,284 in the Narcotic Treatment Program, and an increase of 444 in the Day Care Rehabilitative Program.
- Perinatal Drug Medi-Cal—Excluding increases related to the Conlan litigation, expenditures are projected to increase by \$603,000 General Fund from the January Governor’s Budget due to increased estimates for caseload and average units of service. Caseload is projected to increase by 1,894, or 24.7 percent, above the January Governor’s Budget. This change reflects a caseload increase in all four programs: Outpatient Drug Free, Day Care Rehabilitative, Narcotic Treatment, and Residential.
- Conlan Litigation—An increase of \$5.3 million (\$2.7 million General Fund) and proposed budget bill language are necessary to comply with the requirements of these lawsuits, which require the state to actively reimburse certain Medi-Cal beneficiaries.
- Dependency Drug Courts—An increase of \$1.8 million in reimbursements from the Department of Social Services is proposed to sustain the 2005-06 funding level for Dependency Drug Courts, which focus on cases involving parental rights and a substance abuse charge against a parent. The goal of these courts is to help decrease the number of children placed in foster care.

Department of Social Services

- 2005-06 -\$22.6 million
- 2006-07 \$63.5 million

CalWORKs

The 2005-06 average monthly CalWORKs caseload of 478,100 represents a 2.5 percent decrease from 2004-05, revised from the January Governor's Budget estimate of a 1.3 percent decrease. For 2006-07, the caseload is now expected to be 475,100, a 0.6 percent decrease from the revised 2005-06 caseload.

The May Revision continues to meet the federally required combined state and county Temporary Assistance for Needy Families (TANF) maintenance-of-effort (MOE) of \$2.7 billion. For 2005-06, total CalWORKs-related expenditures are estimated to be \$6.7 billion, including county expenditures and the transfer to the Department of Education for child care costs. For 2006-07, total CalWORKs-related expenditures are anticipated to be \$6.8 billion.

The federal Deficit Reduction Act of 2005 reauthorized the federal TANF program and updated the caseload reduction credit. Historically, California met federal performance targets because of the credit received as a result of significant caseload declines since the inception of CalWORKs. As a result of the adjustment to the caseload reduction credit, California is not likely to meet federal targets and must improve work participation from the current rate of approximately 24 percent to 50 percent beginning October 1, 2006. Considerable improvement in work participation rates must be achieved to avoid federal penalties, which could be more than \$2 billion General Fund over a five-year period. The Department of Social Services (DSS) has begun meeting with key stakeholders and legislative staff to respond to the federal requirements. Through these meetings, a wide variety of options will be explored to identify the best policy and fiscal approaches that the state should take in responding to the work participation requirements under TANF reauthorization.

The Administration is committed to addressing the increased work participation requirements through substantive program improvements that will support and engage more recipients in activities that lead to self-sufficiency. As a first step in building upon the work-first focus of the CalWORKs program, the May Revision proposes several actions to help meet the new requirements and position the state to make additional changes after the federal regulations are published later this summer. Proposed reforms include:

- **Pay for Performance**—To refocus CalWORKs implementation on work participation and employment, the May Revision sets aside \$40 million in the 2006-07 CalWORKs reserve for the Pay for Performance program. Counties that successfully meet the desired outcomes would receive a fiscal reward in 2007-08. Performance would be measured on three outcomes: (1) employment rates, (2) a modified work participation rate that accounts for state allowable activities, and (3) the percentage of county CalWORKs cases that have earned income three months after ceasing to receive aid.
- **CalWORKs Participation Improvement Project**—The May Revision includes \$20 million in 2006-07 for the Participation Improvement Project to help counties overcome barriers in engaging CalWORKs recipients in appropriate activities and to improve counties' ability to meet the required work participation rate. This program will provide funding to counties on a competitive basis to implement strategies for addressing unengaged recipients, reducing counties' sanction and noncompliance rates, or reducing the number of recipients who are able to participate but are not continuously engaged.
- **Performance Reviews and Best Practices**—Building upon the Pay for Performance program, \$1.5 million of existing research funds will be utilized to implement a peer review program to identify best practices and obstacles to improved performance in individual counties. County-specific performance data will be published regularly on the DSS Web site to ensure that information on best practices is available.
- **TANF Reauthorization/CalWORKs Reform Reserve**—In order to fund future program improvements that are identified through the TANF reauthorization stakeholder process currently underway, \$114.6 million will be held in reserve. At this time, several critical issues remain to be defined by the federal regulations and additional time is required to analyze programmatic data and identify options for improvement.

Supplemental Security Income/State Supplementary Payment Program

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are \$3.5 billion in 2005-06, representing a decrease of \$27.5 million compared to the January Governor's Budget, primarily due to lower than expected caseload growth. The SSI/SSP General Fund expenditures for 2006-07 are \$3.6 billion, which is an increase of \$1.1 million from the January Governor's Budget. Caseload for the SSI/SSP program is projected at 1,212,000 recipients in 2005-06 and 1,241,000 recipients in 2006-07, which represents a year-to-year caseload growth of 2.4 percent. These caseload estimates reflect a slight decrease in 2005-06 and 2006-07

from the 2006-07 January Governor's Budget projection. Significant changes in SSI/SSP General Fund expenditures include:

- An increase of \$43.8 million from rescinding the proposal to suspend the pass-through provision of the April 2007 federal SSI cost-of-living adjustment (COLA) until July 2008. The proposal to withhold pass-through of the COLA was necessitated by the anticipated revenue situation at the Governor's Budget. Due to additional General Fund revenue, pass-through of this COLA can be provided beginning April 1, 2007 pursuant to current law. Because of this action, monthly grant payment levels are estimated to be increased from \$836 to \$849 for aged or disabled individuals and from \$1,472 to \$1,491 for couples on April 1, 2007.
- A reduction of \$25 million in 2005-06 and \$21.6 million in 2006-07 due to lower caseload and lower average monthly grant expenditures since the Governor's Budget.
- A decrease of \$2.4 million in 2005-06 and \$20.9 million in 2006-07 due to savings from performing more frequent eligibility redeterminations and changing the payment of retroactive benefits from a one-time lump payment to an installment payment, as required by the federal Deficit Reduction Act of 2005.

In-Home Supportive Services

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are \$1.3 billion in 2005-06 and 2006-07, including increases of \$3.8 million in 2005-06 and \$22.4 million in 2006-07 compared to the January Governor's Budget. Caseload is projected to be 354,100 recipients in 2005-06 and 378,400 in 2006-07. Although this represents a year-to-year caseload growth of 6.9 percent, the caseload estimates in 2005-06 and 2006-07 are slightly less than projected in the January Governor's Budget. Significant General Fund adjustments include the following:

- An increase of \$7.8 million in 2005-06 and \$17.2 million in 2006-07 to continue funding costs associated with applying Medi-Cal share-of-cost rules to certain IHSS recipients. This is consistent with the Administration's intent to protect recipients' access to services under the recent federal waiver.
- An increase of \$7.9 million in 2005-06 and \$18.6 million in 2006-07 for 15 counties that increased IHSS wages and/or health benefits since the January Governor's Budget.

- Decreases of \$13.6 million in 2005-06 and \$11.7 million in 2006-07 due to a lower caseload projection, partially offset by increased hours per case, since the January Governor's Budget.

Foster Care

Total General Fund expenditures for the Foster Care Program are \$433.7 million in 2005-06 and \$418.1 million in 2006-07, which represent decreases of \$9.2 million in 2005-06 and \$8.7 million in 2006-07 compared to the January Governor's Budget. Caseload growth in the Foster Care program continues to slow and flatten, indicating reduced entries and increasing exits from the system. The year-to-year caseload growth is projected to increase by 0.4 percent.

Title IV-E Waiver—California recently secured federal approval of the state's Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project. This waiver proposal will test a "capped allocation" strategy that will provide federal Title IV-E foster care funds as block grants for up to 20 participating counties. Counties will have flexible use of these funds for early intervention and prevention services that help to reduce out-of-home care, promote reunification, and address required state and federal outcomes for child safety, permanence, and well-being. Absent the waiver, counties can access federal support only once a child is removed from the home and is placed in the foster care system.

The waiver will enable the state to better support vulnerable children and families by allowing a full range of prevention services, rather than limiting the use of federal foster care funds on children who have been removed from their homes and placed in foster care. The Administration is working collaboratively with prospective participating counties, including Los Angeles County.

The May Revision provides \$35.5 million (\$10 million General Fund) for first year costs to implement the waiver. This funding will be available, subject to approval by the Department of Finance, for counties that formally commit to participate in the waiver.

Child Welfare Services

Total General Fund expenditures for Child Welfare Services (CWS) are \$613 million in 2005-06 and \$645.3 million in 2006-07, which represent a decrease of \$1.5 million in 2005-06 and an increase of \$16.4 million in 2006-07 compared to the January Governor's Budget. The increase in 2006-07 is primarily due to a series of programmatic investments designed to ensure the safety of children and improve outcomes, such as permanency and the

well-being of children and families served. Caseload in the CWS program continues to slow and is declining in certain components of the program. The caseload for all CWS program components combined is projected to decrease by 1.6 percent from 2005-06 to 2006-07.

County Expansion of Program Improvement Plan (PIP) Initiatives—The federal Child and Family Services Review and the new California Outcome and Accountability System have established a comprehensive process to measure program performance and track improvement in California's CWS delivery system. The May Revision includes \$19.6 million (\$11.9 million General Fund) to expand three specific PIP initiatives, currently being pilot tested in 11 counties, to additional counties in 2006-07. This funding will allow the Standardized Safety Assessment initiative to be expanded to an additional 18 counties and the Differential Response and Permanency Enhancements initiatives to be expanded to an additional 15 counties.

Preliminary evaluation information from the first cohort of counties piloting these PIP initiatives has demonstrated positive performance results and improved outcomes for children and families. Program expansion activities will assist the state in making ongoing progress toward federal compliance and should improve California's performance in the next federal review scheduled for 2007. Failure to demonstrate measurable improvement during the state's PIP evaluation would result in significant federal penalties, which would be compounded in out-years. This proposal will provide the necessary resources to support critical PIP activities to achieve compliance with federal performance requirements, avoid federal penalties, and protect federal funds for the CWS program.

Dependency Drug Courts—Dependency drug courts provide intensive substance abuse treatment combined with close court supervision to parents who are involved in dependency court cases. These programs seek to either have children safely remain with their parents or to hasten the reunification of families. The May Revision includes \$2.1 million General Fund to maintain expenditures of \$1.8 million in 2006-07 for the Dependency Drug Court program expansion initiated in 2004-05 and to provide \$300,000 in contract funding for an evaluation of the cost-effectiveness of the existing pilot project. Continued study is needed to more accurately determine the impact of this program prior to any expansion beyond the current nine counties.

Future Improvements in Child Welfare Services

The Governor is committed to enhancing outcomes for children. The January budget calls for additional investments to support children and youth in foster care by increasing adoptions,

promoting permanent homes and family connections, and supporting older children and youth emancipating from foster care. The Governor stands ready to build on these proposals to advance our common interest in improving the safety, permanency and well-being of children and youth in foster care. In particular, the Administration looks forward to working with the Legislature to ensure that our county partners have the necessary support and flexibility to implement programs to prevent or reduce foster care placements. State support and county flexibility must be tied to improved outcomes for children and coupled with ongoing accountability for performance. In addition, the Administration is interested in identifying promising strategies to support youth in foster care to successfully transition to adulthood, to enhance the ability of relatives to care for children, and to support the adoption of older foster youth. Working together, we can realize important improvements to prevent children from entering foster care, ensure those in foster care have improved outcomes, and youth emancipating from foster care have the services and supports to succeed as adults.

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